GCR Insurance Sector Risk Scores
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Analytical contacts

Primary analyst
Yvonne Mujuru
YMujuru@GCRratings.com
Sector Head: Insurance
+27 11 784 1771

Secondary analyst
Godfrey Chingono
GodfreyC@GCRatings.com
Deputy Sector Head: Insurance
+27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Insurance Companies, May 2019
GCR Country Risk Scores, June 2019
GCR Financial Institutions Risk Scores, July 2019

The GCR Insurance Sector Risk Assessment

The insurance sector risk score (ranging from 0 to 15) is a key factor in the operating environment component score. The core of the GCR Ratings Framework is based on GCR Ratings’ (“GCR”) opinion that an entity’s operating environment largely frames its creditworthiness. As a result, the operating environment analysis anchors the underlying risk score for the GCR rating methodology. GCR combines elements of the country risk and sectoral risk analysis, blended across countries for entities operating across multiple jurisdictions, to anchor an insurer to its current operating conditions.

GCR will periodically publish updated “Insurance Sector Risk Scores”, which will supersede previous publications. This publication, available at gcratings.com/risk-scores/, supersedes the publication titled “Insurance Sector Risk Scores”, which was published on 10 July 2019.

Insurance Sector Risk Scores

Republic of Benin, Sector Risk Score 2.75. Country Risk Score 3*, Mapping Table 3.0 to 3.5

Benin’s sector risk score of ‘2.75’ reflects GCR’s view of an intermediate regulatory environment (with a solvency assessment which is not risk based, and relatively low transparency levels). The score factors in moderately high industry earnings’ risk, which is a function of sound investment returns being partially offset by weak underwriting performance. GCR also considers the very low level of financial inclusion, with insurance penetration well below 1% and insurance density of less than USD10. Growth potential is moderately healthy, with real premium growth measuring around 5%. Barriers to entry are viewed to be moderately high, with established players dominating the market (the top five players account for more...
than 65% of total industry premiums), and limited scope for new entrants. The Benin banking sector score has a negative impact on the insurance sector risk score.

**Republic of Botswana, Sector Risk Score 5.0. Country Risk Score 9.25*, Mapping Table 9.0 to 9.5**

Botswana’s insurance sector risk score of ‘5.0’ reflects the country’s intermediate insurance penetration (2.8%), compared to regional peers (2.5%). The score also factors in very low insurance density at USD209, albeit measuring higher than regional peers. GCR considers the intermediate regulatory framework, with a solvency assessment regime which is currently not risk based, albeit plans are underway to implement a risk based capital framework. Note is taken of the moderation in growth potential, with real premium growth registering around 1%. Recent margin compression and systematic reduction in investment yields results in an intermediate level of earnings’ risk. The market is mainly dominated by the regional brands, with the top five insurers accounting for more than 75% of total industry premiums. Accordingly, barriers to entry are viewed to be moderately high, with limited successful entrance of new participants over the last five years. Botswana’s financial sector score has a neutral impact on the insurance sector risk score.

**Republic of Cameroon, Sector Risk Score 2.75. Country Risk Score 3.75*, Mapping Table 3.5 to 4.0**

Cameroon’s insurance sector risk score of ‘2.75’ balances GCR’s view of an intermediate regulatory environment (with a solvency assessment that is not risk based and low levels of transparency), moderately high earnings risk and moderately healthy growth potential (with real growth registering around 5%). The score also factors in intermediate barriers to entry, with limited number of successful entrants into the market over the last 10 years. The market is fairly competitive, with the top five players combined accounting for 46% of total industry premiums, resulting in relatively stable market dynamics. The industry reflects a low level of financial inclusion, with insurance penetration (1%) and density (USD15) registering at very low levels. The financial sector score has a negative impact on the insurance sector risk score.

**Cote D’Ivoire, Sector Risk Score 3.25. Country Risk Score 5*, Mapping Table 5.0 to 5.5**

Cote D’Ivoire’s insurance sector risk score of ‘3.25’ reflects an intermediate regulatory environment (with a solvency assessment regime that is currently not risk based, coupled with average transparency levels). The score also factors in low insurance penetration at 1.5% (CIMA participants average: 1.1%; global average: 6.3%), and very low insurance density at less than USD30. GCR also takes into account moderately high earnings risk, stemming from high net profit volatility, and collection challenges (with high premium receivables especially impacting reinsurers). Growth potential is viewed to be healthy (five year gross premium real compound annual growth rate: 9%), supported by strong economic growth. The score also takes into account the competitive structure of the market, with the top five players accounting for about 56% of gross premiums, and limited scope for disruption. The financial sector score has a negative impact on the insurance sector risk score.

**Republic of Ghana, Sector Risk Score 4.25. Country Risk Score 3.75*, Mapping Table 3.5 to 4.0**

Ghana’s insurance sector reflects a moderately strong regulatory environment (with a provisional risk based solvency assessment framework and strong implementation and enforcement), healthy growth...
potential, and moderately high barriers to entry (following the increase in minimum capital requirements to GHS50m for insurers and GHS125m for reinsurers). The score factors in very low insurance penetration (less than 1%) and very low density (less than USD10). Weak underwriting performance is partially offset by strong investment income (given the comparatively high interest rate environment). GCR also considers the fairly competitive structure of the market, with the top five players accounting for about 45% of gross premiums, resulting in fairly stable dynamics. The Ghanaian banking sector score has a negative impact on the insurance sector risk score.

Republic of Kenya, Sector Risk Score 4.75. Country Risk Score 4.5*, Mapping Table 4.5 to 5.0

Kenya’s insurance sector risk score of ‘4.75’ balances a moderately strong regulatory environment (with a provisional risk based solvency assessment regime and generally very high levels of transparency) and healthy growth potential. Kenya is expected to continue to reflect intermediate insurance penetration (2.5%; global average: 6.3%) and very low insurance density (USD40; global average: USD650). The score also factors in the highly competitive market structure (with the top five players accounting for 30% of gross premiums), resulting in pricing pressure. In this regard, GCR considers the level of earnings risk to be intermediate, being largely impacted by the competitive dynamics. Barriers to entry are moderately high (with a limited number of successful new entrants in the market over the last five years), given the market structure and dynamics. The Kenyan financial sector score has a negative impact on the insurance industry score.

Republic of Malawi, Sector Risk Score 2.75. Country Risk Score 1.5*, Mapping Table 1.0 to 2.0

Malawi’s insurance sector risk score of ‘2.75’ balances an intermediate regulatory oversight, low insurance penetration (1.4%), very low insurance density (USD5) and healthy growth potential. Cognisance is taken of the absence of minimum premium rates (resulting in rates pressure which may gradually result in a significant moderation in growth). This, coupled with price-based competition, results in high earnings risk. In GCR’s view, given the low likelihood of new entrants into the market, barriers to entry are viewed to be moderately high. The financial sector score for Malawi has a negative impact on the insurance sector risk score.

Republic of Mauritius, Sector Risk Score 6.0. Country Risk Score 9.25*, Mapping Table 9.0 to 9.5

Mauritius’ insurance sector risk score of ‘6.0’ reflects GCR’s view of a strong regulatory environment (with a risk based solvency assessment regime and very high levels of transparency), moderately high barriers to entry and fairly competitive structure of the market, with the top five players accounting for about 75% of gross premiums. The score also factors in low real growth potential, intermediate insurance penetration (4.2%; global average: 6.3%), and comparatively low insurance density (USD437; global average: USD650). Recent net margin compression has resulted in an intermediate level of earnings risk. The financial sector score has an overall neutral impact on the insurance sector risk score.

Republic of Mozambique, Sector Risk Score 2.0. Country Risk Score 1*, Mapping Table 1.0 to 2.0

Mozambique’s insurance sector risk score of ‘2.0’ reflects GCR’s view of a weak regulatory environment, low insurance penetration (1.7%) and very low insurance density (USD6.60). Earnings risk is expected to
remain moderately high, given the high susceptibility of the industry to overarching macroeconomic factors. The score factors in moderately healthy growth potential, with real growth averaging around 4%. Cognisance is taken of the fairly stable industry structure (with the top five players accounting for about 85% of industry premiums). Barriers to entry are viewed to be intermediate, due to the dominance of government related business and language constraints (with Portuguese as the official language). The overall financial sector score is viewed to have a negative impact on the insurance sector score.

Republic of Philippines, Sector Risk Score 6.5. Country Risk Score 9.0*, Mapping Table 9.0 to 9.5
Philippines’ insurance sector risk score of ‘6.5’ balances a strong regulatory environment (with a risk based solvency assessment regime and high levels of transparency), and healthy growth potential, with low insurance penetration (1.8%) and very low insurance density (less than USD75). The score also factors in high barriers to entry, with very limited number of successful market participants over the last five years, in the context of a highly competitive market structure (the top five players accounting for about 40% of total industry gross premiums). Net margins are relatively healthy, albeit remaining highly susceptible to weather related events. The financial sector score has an overall neutral impact on the insurance sector risk score.

Republic of South Africa, Sector Risk Score 8.75. Country Risk Score 7.5*, Mapping Table 7.5 to 8.0
South Africa’s insurance sector risk score of ‘8.75’ balances a strong regulatory environment (with an advanced risk based solvency assessment regime and generally very high levels of transparency) and high insurance penetration (12.6%; global average: 6.3%), with intermediate real growth potential and average insurance density (USD768; global average: USD650). The score also factors in low earnings risk, which has resulted in high net profit stability over the last five years. GCR also considers the fairly competitive structure of the market, with the top five players accounting for about 50% of gross premiums. Barriers to entry are high (with a limited number of successful new entrants in the market), given the high regulatory compliance requirements and competitive dynamics. The South African financial sector score has an overall neutral impact on the insurance sector risk score.

Republic of Tanzania, Sector Risk Score 3.25. Country Risk Score 4.0*, Mapping Table 4.0 to 4.5
Tanzania’s insurance sector risk score of ‘3.25’ reflects a moderately strong regulatory environment (with a solvency assessment regime that is currently not risk based and strong regulatory implementation and intervention). The score also factors in very low insurance penetration of 0.5% (regional peers: 2.5%; global average: 6.3%), and very low insurance density of less than USD10. Growth potential is viewed to be moderately healthy (five year gross premium real compound annual growth rate: 4%). GCR also takes into account intermediate earnings risk, with strong investment income, partially offset by underwriting margin compression. The score factors in the fairly competitive structure of the market, with the top five players accounting for about 45% of total industry gross premiums, and the limited number of successful new entrants in the market (given the strict local content enforcement). GCR factors in the financial sector score, which has a negative impact on the insurance sector risk score.
Republic of Uganda, Sector Risk Score 3.75. Country Risk Score 3.5*, Mapping Table 3.5 to 4.0

Uganda's insurance sector risk score of ‘3.75’ reflects an intermediate regulatory framework (with a solvency assessment that is currently not risk based), low insurance penetration (less than 1%) and very low insurance density (less than USD10). The score also considers the low barriers to entry, with a number of successful new players having entered the market, and established market presence over the past ten years. This notwithstanding, very low earnings risk is expected to be sustained over the medium term, supported by strong real growth potential (real gross premium growth averaged 10% over the last five years), and the enforcement of minimum rates. The financial sector risk score has a negative impact on Uganda’s insurance sector risk score.

Republic of Zambia, Sector Risk Score 2.5. Country Risk Score 1.75*, Mapping Table 1 to 2.0

Zambia’s insurance sector risk score of ‘2.5’ reflects GCR’s view of a limited regulatory framework (with solvency assessment which is not risk based and intermediate transparency levels). Note is taken of the potential of the regulatory framework to strengthen to levels similar to regional peers over the medium term, to adapt to the strong presence of regional brands in the market. Zambia reflects low insurance penetration at 1.1%, compared to regional peers at 2.5% (global average: 6.3%), and very low insurance density at less than USD50. Earnings risk is viewed to be moderately high, stemming from the competitive nature of the industry, coupled with inhibitive cost structures. The score factors in moderately healthy growth potential, with real industry growth of 4%. Barriers to entry are viewed to be low, with successful market entrants having been registered in both the short and long term product space over the past ten years. In this regard, market dynamics may come under pressure over the medium term, in the absence of responsive regulatory adoption. The financial sector risk score has a negative impact on the insurance sector risk score.

Republic of Zimbabwe, Sector Risk Score 3.25. Country Risk Score 0*, Mapping Table 0 to 1.0

Zimbabwe’s insurance sector risk score of ‘3.25’ reflects an intermediate regulatory environment (with a solvency assessment regime that is currently not risk based and generally high transparency level). The score also factors in an intermediate level of insurance penetration of 3.7% (regional peers: 2.5%; global average: 6.3%), and very low insurance density of less than USD50. Growth potential is viewed to be moderately healthy (five year gross premium real compound annual growth rate: 7%), albeit note is taken of potential moderation, due to the overarching macroeconomic factors. GCR also takes into account an intermediate earnings risk, with moderately strong net profitability, partially offset by high volatility. The score also takes into account the competitive structure of the market, with the top five players accounting for more than 60% of gross premiums, and the limited number of successful new entrants in the market. GCR factors in the very weak financial institution score, which has a very negative impact on the insurance sector risk score.

*Country Risk scores as at date of publication.
Figure 1: GCR Insurance Sector Risk Ranking

Figure 2: GCR Operating Environment Risk Ranking*

*Country Risk Scores as at date of publication.